



## Initial Public Offering (IPO) of Synergy Drinks Ltd in Pakistan

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**Abstract:** *Ahmed liked to keep abreast with financial news in the country. One afternoon when he was going through his routine practice of reading business news in the Express Tribune, the heading of 'IPO by Synergy Drinks Ltd' caught his attention. As an independent company, the shares of Synergy Drinks were to be listed on the Pakistan Stock Exchange (PSX). In his MBA course 'Financial Institutions and Capital Markets' Ahmed was introduced to the Dutch Auction method (DAM); however never had he experienced how this actually takes place. As a keen finance student, he always had his finger on the pulse and was avid for knowledge on how under the Dutch Action Method, the strike price is determined. This time, he was quite enthused to witness the live feed of IPO activity; therefore, decided to visit the exchange and witness himself. The next day he found himself in the midst of hundreds of traders shouting out prices, chaotically making wild hand gestures at the exchange!*

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### COMPANY BACKGROUND

The Synergy Group was founded in 1969 by the group of friends as their new venture. Later in 1999, the founders launched Synergy Enterprises to expand the business and started to export the country's fruits and berries across the globe. By 2007, the business burgeoned into one of Pakistan's prime brews exporters. Five years ago from now, Synergy Group established Synergy Drinks Limited and engaged in backward-integration. Ensuing a healthy integration strategy in business, Synergy Drinks inked a joint venture with a well-known industry player outside Pakistan. The company also operated two separate plants to execute its production. Synergy Drinks currently served its products to various local and international corporations. The top five clients of the company accounted for an average of 53% of sales in last four years.

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### **INITIAL PUBLIC OFFERING**

During the fiscal year 16-17, Synergy Drinks Ltd intended to raise the capital of PKR 1,207 million through an IPO at the Floor Price<sup>2</sup> of PKR 35 per share (set by the issuer, with a premium of PKR 25.00). The objective of this issue was to expand the production facilities at Synergy Drinks, to pay off short-term borrowings and elevate working capital requirements of the company. Following the standard operating procedure, the minutiae and break-up of the utilization of proceeds towards its objectives were illustrated in prospectus (duly approved by the Exchange and SEC).

The issue comprised of total 32,500,000 ordinary shares through Book Building Process (BBP). Out of the total issue size, 75% (24,375,000 ordinary shares) were to be issued through BBP to qualified investors and the remaining 25% (8,175,000 ordinary shares) were to be allotted to public through retail offer at the determined strike price (using BBP).

### **Administrative Procedure**

Following the rule of law by the regulator, Synergy Drinks met the formal requirements of Securities Exchange Commission of Pakistan (SECP) and made an application to Pakistan Stock Exchange (PSX) to be granted the approval to deal-in and to request for the quotation of company's share. The eligible bidders/investors<sup>3</sup> would register themselves with a Book Runner<sup>4</sup>, appointed by the company to hold this whole process. While registering for BBP, the investors were to submit the bid amount/margin money through financial instrument. Once the bidders got registered, PSX was required to share the login credentials includes User Id and passcodes to all the registered bidders through e-mail.

The bidding was to take place from 09:00-05:00 (PST) for two (02) working days on February 07 & 08, 2017. During these two days, the PSX displayed all biddings on live stream as an order book in descending order at all bid prices (following the DAM), the cumulative sum of shares (qty) along with the percentage of the total offered shares. In addition, it also displayed the "withdrawn" and "revised" bids.

Once the Strike Price was determined (through Dutch Auction Method) all successful bidders became entitled to the allotment of shares; whereby the book-runner inked the underwriting agreement with the issuer. This agreement was to indicate the number of shares a book runner underwrites and commission to be charged for it. Once the subscription money was fully received, allocation of shares out of the BB-Portion was to be made. However, shares were only to be credited and dispatched to successful bidders.

Lastly, the company was required to publish an addendum to the prospectus within five (05) working days after the close of the bidding. The addendum was to show

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<sup>2</sup> The lowest price per share set by the Issuer, based on company's financial analysis.

<sup>3</sup> A bidder can either be any institution or High Net Worth Individual (HNWI).

<sup>4</sup> Assigned to carrying out all the activity on behalf of issuer and is confined to the fees payable by the issuer.

information on the strike price, issue price, underwriter's name, commission details and category wise break-up of the qualified bidders.

## **THE BIDDING PROCESS**

### **Who can be the bidder?**

Investors including local and foreign Individuals<sup>5</sup>, and Institutional Investors who can place their bids not less than Rs. 1,000,000 (One Million only).

### **Basic Thumb Rules**

- The Margin Money<sup>6</sup> of 100% in case of an individual investor (HNWI) and 25% of the total bid amount in case of institutional investors.
- The placed bid price may not have a disparity of more than 20% of the prevailing indicative strike price (ISP).
- A consolidated bid<sup>7</sup> was prohibited.
- Employees related to the book runner as well as the issuer were not permitted to partake in the bidding process.

### **How was the Strike price determined?**

Under this methodology of Dutch Auction Method (DAM), the Strike Price was to be determined by lowering the price to the extent that the total number of shares (issue size offered) was fully subscribed.

- Floor Price: Rs. 35.00 per share
- No. of shares offered via Book Building: 24,375,000 Ordinary Shares
- Period: February 07- 08, 2017 (2 days)
- Time: 9:00am - 5:00pm
- Revision<sup>8</sup> Time: 9:00am - 5:00pm on all days
- Withdrawal Time: 9:00am – 5:00 pm (all bidding days), however, can the bid can only be withdrawn by 4:00pm (PST) on last day

The excerpt from the order book (Exhibit-1) displayed the bid prices, volume (in descending order), the accumulative count of shares and cumulative the volume at each bid price level.

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<sup>5</sup> Such individuals who can place bid of minimum amount worth PKR 1 million and known as HNWI (High Net Worth Individuals)

<sup>6</sup>The total or partial amount paid by a bidder at the time of registering as an investor ((as the case may be).

<sup>7</sup>A bid is considered to be consolidated when a bid request is completely or partially withheld by 2 or more individuals other than the ones named therein.

<sup>8</sup>Bids can be revised from 9:00 am – 5:00 pm on all bidding days except the last day and till 4:00 pm on last day

Bidder	Price (PKR/Share)	Quantity (Shares)	Cummulative Number of Shares	Category of Order
Institution A	68.0	2,400,000	2,400,000	Limit Price
<del>Institution B</del>	<del>67.5</del>	<del>2,000,000</del>	<del>4,400,000</del>	<del>Limit Price</del>
Institution C	67.0	2,300,000	4,700,000	Limit Price
HNWI A	66.5	2,200,000	6,900,000	Step Bid
Institution D	66.0	2,250,000	9,150,000	Limit Price
Institution E	65.5	2,350,000	11,500,000	Limit Price
HNWI B	65.0	1,875,000	13,375,000	Limit Price
HNWI A	64.5	1,900,000	15,275,000	Step Bid
Institution G	64.0	2,200,000	17,475,000	Limit Price
HNWI C	63.5	1,900,000	19,375,000	Limit Price
Institution F	63.0	1,875,000	21,250,000	Step Bid
Institution G	62.5	2,275,000	23,525,000	Limit Price
HNWI D	62.0	1,200,000	22,450,000	Step Bid
HNWI E	61.5	2,000,000	24,450,000	Limit Price
Institution F	61.0	1,350,000	25,800,000	Step Bid
HNWI D	60.5	1,875,000	27,675,000	Step Bid
HNWI F	60.0	1,900,000	29,575,000	Limit Price

Bid Withdrawn

Strike Price determined through Dutch Auction Method

Bid has been revised and placed at PKR 64/share

Total shares subscribed

**Exhibit1.Excerpt from the order book**

Source: Company IPO Prospectus

At the highest price which was PKR 68.00/share, investors were enthusiastic and eager to purchase 2,400,000 shares. However, at this price since 21,975,000 shares<sup>9</sup> were still available to be issued; hence this price could not be set as the strike price. Similar is the case with all prices following PKR 68 (as shown in Exhibit 2). Only at the price of PKR 61.50 per share, there were no shares available to be issued- meaning that the issue was fully subscribed. Hence PKR 61.50 was to be set as the strike price.

**Exhibit 2. Determining The Strike Price**

PRICE	Investor's willingness to buy (shares)	Cumulative Volume	Remaining available shares
67.00	2,300,000	4,700,000	19,675,000
66.50	2,200,000	6,900,000	17,475,000
66.00	2,250,000		15,225,000
65.50	2,350,000		12,875,000
65.00	1,875,000		11,000,000
64.50	1,900,000		9,100,000
64.00	2,200,000		6,900,000
63.50	1,900,000		5,000,000
63.00	1,875,000		3,125,000
62.00	1,200,000		1,925,000
61.50	2,000,000		-

Source: Created by author.

<sup>9</sup> Subtracting 2,400,000 shares from 24,375,000 shares equals 21,975,000 shares



### **Allotment of Shares**

Since priority was to be given to the highest price bids after determination of the strike price, therefore, bidders who had placed the bids higher than the strike price were to be issued shares at the determined strike price. Margin Money was to be credited back to those bidders who had placed the bids less than the determined strike price, as they were not eligible to receive the shares. If the bids were still adequate enough to allot all offered shares for sale, the bid placed at the uppermost price were to be considered first bid for the entitlement of shares.

Bid(s) placed at determined SP through the BBP, were to be classified equally but preference was to be given on the basis of time (to the bidders who placed the bid earlier).

**In aforementioned example:** The strike price is Rs. 61.50 as shown in illustration, therefore, the method reckons that only those bidders will be eligible for the allotment of shares, who placed their bids above the strike-price of 61.50, hereafter the allotment, the differential/remaining amount would be reimbursed. Those investors who placed the bid below the strike price of PKR 61.50 shall not be in the running for shares allotment, however, their money would be refunded. Once the allotment is done as per above explained pattern, the remaining 75, 000 shares will be allocated to those who placed their bid(s) exactly at the par value of Rs. 61.50/share. Though for the allotment of these remaining shares of 75,000, bidders will be given preference on the basis of the time the bid was placed. Those who placed earlier will be

### **CONCLUSION**

As the bidding process continued, Ahmed's mind was jumbled up with questions. Which electronic system is used for the process? How do the investors get the login credentials? He wondered how frequently do people revise the bids? How frequent is it for people to cancel and replace their bids? What are the relevant regulations and where could he find them? What is the role played by the book runner? Why underwriter is important? How the bidder plays in process by changing the bid price and no. of shares? How system calculate the cumulative bidding volume? How the system arranges the bids in descending order in real time and identify the current strike price? How bidders frequently change/revise their bids in a second, to be a successful bidder? How the system can identify successful bidders? In short, if questions were sounds, he had a cacophony in his head!

## DISCUSSION QUESTIONS

1. From Sheet 2, how would Ahmed identify
  - a. Bidders who placed maximum revised bids
  - b. Bidder who placed maximum cancellation of bids
  - c. Successful bidders
  - d. Why would this information be of particular concern to the regulator?
  
2. From Sheet 1, how would Ahmed calculate:
  - a. %age of Margin Money according to Investor type
  - b. Margin money amount
  - c. No of shares allotted to each successful bidder (Manually or using Excel Formula)
  - d. Refunded Money
  
3. From Sheet 2, how would Ahmed calculate:
  - a. Given the Prevailing Indicative strike price, calculate how much Bid price %age is placed. Is there anyone exceeds more than 20%
  - b. Commutative bid volume

